

Part IV

Items of General Interest

Frequent Flyer Miles Attributable to Business or Official Travel

Announcement 2002-18

Most major airlines offer frequent flyer programs under which passengers accumulate miles for each flight. Individuals may also earn frequent flyer miles or other promotional benefits, for example, through rental cars or hotels. These promotional benefits may generally be exchanged for upgraded seating, free travel, discounted travel, travel-related services, or other services or benefits.

Questions have been raised concerning the taxability of frequent flyer miles or other promotional items that are received as the result of business travel and used for personal purposes. There are numerous technical and administrative issues relating to these benefits on which no official guidance has been provided, including issues relating to the timing and valuation of income inclusions and the basis for identifying personal use benefits attributable to business (or official) expenditures versus those attributable to personal expenditures. Because of these unresolved issues, the IRS has not pursued a tax enforcement program with respect to promotional benefits such as frequent flyer miles.

Consistent with prior practice, the IRS will not assert that any taxpayer has understated his federal tax liability by reason of the receipt or personal use of frequent flyer miles or other in-kind promotional benefits attributable to the taxpayer's business or official travel. Any future guidance on the taxability of these benefits will be applied prospectively.

This relief does not apply to travel or other promotional benefits that are converted to cash, to compensation that is paid in the form of travel or other promotional benefits, or in other circumstances where these benefits are used for tax avoidance purposes.

For information regarding this announcement, call (202) 622-4606 (not a toll-free number). Alternatively, taxpayers may transmit comments electronically via the following e-mail address: Notice.Comments@irs.counsel.treas.gov. Please include "Announcement 2002-18" in the subject line of any electronic communications.